

Year Two Six-Month Report

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USAID Rural Enterprise Competitiveness Program (RECP) Baku, Azerbaijan



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Table of Contents

EXECUTIVE SUMMARY	3
INTRODUCTION & BACKGROUND	4
YEAR TWO ACHIEVEMENTS	5
REVIEW OF YEAR TWO ACTIVITIES	6
ADMINISTRATION AND STAFF DEVELOPMENT	6
GRANTS	7
INFORMATIONAL RESOURCES AND MATERIALS	8
INTER-PROGRAM COOPERATION	8
CLIENT OUTREACH, TRAINING & BDS	8
AZERBAIJAN AGRIBUSINESS MARKETING COUNCIL	9
AAC MARKETING PROGRAMS	9
VALUE CHAIN DEVELOPMENT	10
MARKET ANALYSIS AND TRADE DEVELOPMENT	10
TRADE FAIRS	10
INSTITUTIONAL AND FOOD SERVICE CLIENT COMPANIES	11
INVESTMENT AND ACCESS TO FINANCE	11

Executive Summary

The project's three key objectives are to create jobs, attract domestic and foreign investment, and increase domestic and export sales. As they worked toward these objectives over the first year and a half of activity, the Azerbaijan Agribusiness Center, implementing the work of the RECP Project, has assisted clients to enter new markets, improve product quality and processing efficiency, access credit, purchase equipment and invest in new facilities, and improve upstream and downstream linkages.

Ten account managers are providing services to 42 long-term clients. After thoroughly assessing client needs through a SWOT analysis, clients and account managers collaboratively develop strategic action plans that guide further assistance. While assistance is tailored to the needs of each specific client, general areas of emphasis include trade and marketing; processing; finance and credit; and logistics and inputs. Since the inception of the RECP project, clients have achieved \$1,296,161 in trade and \$3,424,850 in investment, plus purchased \$251,650 in inputs from new sources with AAC assistance.

The work plan developed for Year Two was designed to build upon the successes of Year One, expand those activities that had the most impact, and revise or remove those activities that did not meet the changing needs of the client base. The target audience was further refined, with decreased emphasis on production and increased emphasis on processing as the ABAD project came on line and began to take on production support activities.

Two trends are visible in the administrative, organizational, and staffing changes of the past six months. First of all, whenever possible management has strived to increase local managerial responsibilities and promote the autonomy of regional offices. Secondly, there has been a shift from broad, long-term technical assistance to a series of short-term, focused, highly technical consulting assignments.

Staff skill building and mentoring is an on-going process and a strong foundation has been built. Staff members continue to receive instruction through internal and external forums on a variety of business and management topics as well as technical processing topics.

Client assistance was focused on improving competitiveness through proactive technical and business assistance in market chain analysis, market development, trade and investment facilitation, and processing technologies. Market analysis was conducted on the domestic honey market and the domestic sausage market for two client companies. Attendance and exhibiting continued at trade fairs in Europe, the Middle East, and the CIS. The purpose was not only to sell product, but also to expose clients to new technologies, markets, products, and ideas.

Broader sector assistance is focused on developing supporting organizations such as the AAMC and G&R Consulting, meeting the informational needs of the sector through targeted publications, and targeting key value chains for analysis and development. For example, the Azerbaijan Agribusiness Marketing Council (AAMC) has formalized its structure by adopting the proposed bylaws and defining a fee structure for membership, and is now focused on two priorities: membership generation, and delivery of value-added services. Value Chain work continues with more specific interventions in the meat chain, specifically in sausage and poultry, and with an assessment of a second value chain – the horticulture chain.

This report will provide background on the project, detail the primary AAC achievements to date and describe the major activities of Year Two to date.

Introduction & Background

The goal of the Rural Enterprise Competitiveness Program (RECP) is to raise rural incomes and productivity in Azerbaijan. The program will increase the volumes and quality of processed agricultural product so that the volume of value added products sold in domestic and export markets increases, providing income benefits for a broad range of processors, and will enable Azeri products to displace imports and reach export markets by introducing the competitiveness paradigm in the agricultural and agri-business clusters of Azerbaijan's economy.

The project's three key objectives are to create jobs, attract domestic and foreign investment, and increase domestic and export sales. The official PMP (Performance Monitoring Plan) parameters to measure project performance are based on these goals and are: increases in value added productivity, number and value of trade deals and sales increases, and value of investment into agribusiness.

The RECP project has created a local entity, the Azerbaijan Agribusiness Center (AAC), through which to implement its activities and achieve these objectives. This was done to ensure the future provision of support activities to the agricultural sector – the AAC will continue to provide services to the Azerbaijan agribusiness community on a sustainable basis after the RECP project has ended.¹

Above all, the project's aim is to provide demand driven services, focusing not only the processing aspect, but on the needs of the marketplace. In other words, all products and services will be designed based not on what the Azeri agribusiness sector can produce or process but what the customer wants. While these topics will be detailed in subsequent sections, it is important to note the focus on marketing, market linkages, and value addition along the chain, in keeping with the demand-driven philosophy that guides all AAC activities.

Over the first year and a half of activity, the Azerbaijan Agribusiness Center has assisted clients to enter new markets, improve product quality and processing efficiency, access credit, purchase equipment and invest in new facilities, and increase sales and employment. The pressures of global competition, consolidation, and advances in technology make it increasingly difficult for agribusinesses in transition economies to successfully compete. Therefore, the AAC has developed innovative, proactive, demand driven approaches to agribusiness development that address these challenges.

Ten account managers are providing services to clients throughout Azerbaijan in a variety of areas:

- Marketing: Market research; Strategy and Product Positioning; Export Promotion; and Trade Facilitation
- Processing: Plant Efficiencies; Targeted Value Addition; Quality, Sanitation & Certification; and Supply Chain Management
- Credit, Investment, and Finance: Business planning and credit applications; cost accounting; partner identification, vetting, and negotiations
- Logistics and Inputs: Improving links to producers, development of post-harvest handling facilities and markets, transport and customs issues

¹ From here on, AAC will be used to refer to the team and implementation, while RECP refers to the USAID project.

Year Two Achievements

Ten account managers are providing services to 42 long-term clients. Clients are thoroughly analyzed and detailed SWOT (Strengths, Weaknesses, Opportunities, and Threats) assessments completed. Clients and account managers then collaboratively develop strategic action plans that guide further assistance. While assistance is tailored to the needs of each specific client, general areas of emphasis include trade and marketing; processing; finance and credit; and logistics and inputs. Since the inception of the RECP project, clients have achieved \$1,296,161 in trade and \$3,424,850 in investment, plus purchased \$251,650 in inputs from new sources with AAC assistance. Here are some highlights of accomplishments of clients in Year Two as a result of assistance from AAC account managers:

Trade and Marketing

- ✦ *SAF LLC*, a leading juice producer in Azerbaijan, participated in InterFood Saint Petersburg, where it found new distributors for its juice, resulting in sales of \$100,000 of juice to the Russian market.
- ✦ *Golden Hive Association* received a grant to participate in a Russian honey exhibition and put on the Third Annual Honey Exhibition in Baku. Members sold honey and related products totaling \$68,960.
- ✦ Struggling with record-low hazelnut harvests, *Ali Said* received assistance in creating both supply- and demand-side linkages, and managed to sell \$140,000 of hazelnuts to a new Moscow buyer.
- ✦ *Lyuks Ltd.*, attending its first international exhibition, has since made two export deals for pickles and tomatoes totaling \$117,000, from contacts made at World Food Moscow.
- ✦ *Inter-Pak* gained the attention of two Russian buyers at World Food Moscow. One bought \$200,000 of pomegranate juice in two shipments, while the second bought \$42,000 of pomegranate sauce.
- ✦ *Shahdag E.*, a local honey processor, had trouble finding demand to fill production capacity. The AAC helped *Shahdag E.* to land a catering contract that will more than double its annual sales.

Processing

- ✦ To fill the growing demand for pomegranate products in the Russian market, *Inter-Pak* invested \$2,500 in their narsharab processing line and \$15,000 in pomegranate juice processing equipment.
- ✦ *Aran LLC* invested in new refrigeration equipment and a cheese aging and storing room. This allows the company to take advantage of lower milk costs in spring and higher cheese prices later in the year.
- ✦ *Samedoglu Ataturk* bought water bottling equipment, but had quality problems. Following a review and overhaul of the equipment, the company sold 5,000 bottles in the first 10 days of operations.
- ✦ Dairy processor MQ-1 has increased white cheese production from an average of 375 kg per day to an average of 575 kg per day. This 53% increase will yield an additional US\$89,000 in annual sales.
- ✦ Weeds were stifling lettuce growth at *Agro-Yurd*, but a combined physical and chemical weed management program decreased weeds by 70% and increased productivity by 10% on pilot acreage.

Finance and Credit

- ✦ Business planning enabled *Kristal* to access \$30,000 on very attractive terms (5 years, 7% APR) from Amrah Bank in Masalli, which will be used to install a new tomato paste processing line.

Logistics and Inputs

- ✦ *Khachmaz Sud* established a milk receiving center in Gusar region that increased the volume of milk by 50%, allowing the company to meet consumer demand for milk products even in the winter.
- ✦ Matching a broiler company with a new feed input supplier, helped to lower the broilers feed costs. In the first week, two shipments totaling \$1,400 were made and both companies have benefited.
- ✦ Through the renewal of old contacts at Inter Meat Düsseldorf, *Absheron-2000* purchased \$25,800 of spices and other sausage additives, which will improve the quality and consistency of its products.
- ✦ In Kiev, *Lyuks Ltd.* identified a new Russian glass supplier, and negotiated a lower price than what they paid to their current Iranian supplier. *Lyuks* made an initial order a total cost savings of \$44,000.

Review of Year Two Activities

The work plan developed for Year Two was designed to build upon the successes of Year One, expand those activities that had the most impact, and revise or remove those activities that did not meet the changing needs of the client base. The target audience was further refined, with decreased emphasis on production and increased emphasis on processing as the ABAD project came on line and began to take on production support activities.

A collaborative relationship between the RECP CTO and COP allows for revision of the work plan as necessary. It is a working document that can generally react to the needs and demands of the marketplace, in keeping with the project's philosophy, stopping activities that are clearly not competitive, and expanding those areas proven to have immediate opportunity.

Client assistance was focused on improving competitiveness through proactive technical and business assistance in market chain analysis, market development, trade and investment facilitation, and processing technologies. Broader sector assistance is focused on developing supporting organizations such as the AAMC and G&R Consulting, meeting the informational needs of the sector through targeted publications, and targeting key value chains (horticulture, meat) for analysis and development. Each broad category of activities is discussed in the subsequent sections.

Administration and Staff Development

In October, the AAC moved to a new office location in the old city. The move was very quick, with no disruption in activities. The new office separates the program staff, with a client-accessible location for account managers, and separate facilities for the administrative staff and conference room.

In January, a new Chief of Party took over the RECP project, and a new director of client services took over leadership of the account managers, along with a local deputy director of client services. The outgoing Chief of Party remained highly involved as Project Manager, and the overall focus, tempo, and goals of the project remained the same. The transition was completed smoothly with no operational implications, and work accelerated in February with an increase in technical assistance, educational programs, and trade fairs after the holiday lull.

Two trends are visible in the administrative, organizational, and staffing changes of the past six months. First, whenever possible management has strived to increase local managerial responsibilities and promote the autonomy of regional offices. In Lankaran, this means the planned relocation of one expatriate consultant to the Baku office, so that the Lankaran staff takes on additional managerial responsibilities and the consultant will focus on providing his technical expertise to a broader range of account managers and clients. In north-west Azerbaijan, this means the closing of the remote work station in Mingachevir. Instead, the two account managers will work as representatives according to the Guba model, allowing them to increase their focus on the remote areas of the country such as Zagatala and decrease unnecessary travel time and costs.

Secondly, there has been a shift from broad, long-term technical assistance to a series of short-term, focused, highly technical consulting assignments. This has resulted in two expatriate staff redundancies and an increase in the pace of short-term paid consultancies and volunteer assignments.

The second account manager was graduated from the AAC, putting his experience as a trade and marketing specialist to good use as the marketing manager for a growing local company. Two new trade and marketing specialists were hired and, after a period of on-the-job training and mentoring, have now developed their own client portfolios.

Staff skill building and mentoring is an on-going process and a strong foundation has been built. During the first half of Year Two the pace of staff development in technical and management topics has accelerated, and this is planned to continue through the rest of the year. A variety of methods are used in the staff skill-building process: in-house seminars, workshops by visiting volunteers and consultants, and participation in external seminars. The following is a list of workshops that staff (and some clients) attended in the past six months:

Business and Management Topics

- How to Conduct a Detailed SWOT Analysis, October
- Cost Analysis, November
- Value Chain Theory, November
- Sales Presentation Role Play, November
- Basic Financial Skills, December
- Credit and Leasing Opportunities, February
- Marketing Research, February
- Positioning and Branding, February
- Creativeness, February
- Foreign Direct Investment Planning (WTO), March

Processing Technical Topics

- Basics for HACCP Food Safety Management System, October
- Basics of ISO Certification, November
- The Poultry Industry in Azerbaijan, November
- Basic Sanitation in Processing Operations, March
- Least Cost Feed Rations, March
- Program on the Encouragement of Organic Agriculture (SECO & GTZ),

Grants

Grants were not designed to be a separate work plan element, but to further the goals of the RECP project. The grant program facilitates organizational and marketing activities of targeted business groups, support improved marketing and trade opportunities, and provide other support to agribusiness enterprises. In the first six months of Year Two, most of the grants disbursed were travel grants, and one grant was approved for a pilot HACCP compliance program. Grant funding is reflective of the needs of AAC clients.

The following is a complete list of grants approved in the first half of Year Two. All of these grants have been wholly or partially disbursed, or approved for disbursement. The total amount of grant funding approved in these six months is \$85,500.

Organization or Event	Location	Sector	Type of Grant	Grant Size
World Food Ukraine 2004	Kiev, Ukraine	Food Processing	Travel Grant	\$20,000
SIAL 2004 Trade Fair	Paris, France	Food Processing	Travel Grant	\$17,500
Polagra Farm Trade Fair	Poznan, Poland	Agriculture and Livestock	Travel Grant	\$10,000
IATF 2004 Trade Fair	Dubai, UAE	Food Processing	Travel Grant	\$14,000
M&T Company	Baku, Azerbaijan	Sausage Manufacture	HACCP Compliance	\$12,000
Inter Food St. Petersburg 2004	St. Pete's, Russia	Food Processing	Travel Grant	\$12,000

In addition, two grants are in the development stage, pending approval from the grant review board:

- World Food Moscow, travel grant for a group of clients to exhibit at a trade fair in Russia
- Apimondia 2005, travel grant for Shahdag E. to attend a trade fair in Dublin, Ireland

Informational Resources and Materials

Administrative staff and account managers continue to update the client management system with client and industry information. Many additions have been made to the library and statistical and market information is collected and distributed for staff use on a regular basis.

The *Guide to Investing in the Agribusiness Sector of Azerbaijan* was completed and released by the AAC in October 2004. This will be followed by more in-depth research and publications about the opportunities in key agribusiness subsectors.

Inter-Program Cooperation

MBAEC volunteers are no longer affiliated with a separate USAID program; RECP has a direct agreement with the MBAEC to use one volunteer each year, and Brian Wozniak began his assignment on October 1st, working as a mentor for account managers, the AAMC, and G&R Consulting.

The RABD, now ABAD project, has begun activities, and RECP provided support as they established their first BDRC in Lankaran. The two projects continue to cooperate by exchanging information, and the AAC works with client processors to identify production needs that can be passed on to ABAD.

The Cochran Fellowship through the USDA provides a unique opportunity for professionals in agribusiness to gain exposure to practices in the US, and five AAC staff members have applied for the program. In addition, the AAC facilitated client application to US Agricultural Sector Study Tour through USAID's START (Strategic Technical Assistance for Results with Training) program, administered by the Institute of International Education under a subcontract to World Learning. One tomato processor and one company that makes preserves were accepted, one juice company was accepted as an alternate, and one additional cannery was accepted as an alternate but declined the invitation. The program will take place for three weeks this spring.

Client Outreach, Training & BDS

In October, the AAC undertook a detailed assessment of client satisfaction by surveying seven clients who had been long-term clients and received a variety of technical assistance and support. These in-depth surveys were complemented by informal discussions with a broader range of clients. The findings were compiled into a report, and steps were taken to address internal issues negatively impacting service delivery and customer satisfaction. Account managers were told of specific needs for their individual clients, while broader system issues were addressed on a project-wide basis. This was very well-received by clients, who saw that the AAC really does work in their best interests and strives for continuous improvement.

In keeping with the paradigm shift towards short-term, focused, technical assistance, the following consultants and volunteers completed projects in the first six months of Year Two:

- Trade Facilitation and Value Chain Development, Peter Jaeger (Three assignments)
- Strategic Planning and Marketing, Kathleen Dunkle (Long-term in 2004, Short-term in 2005)
- General Management and Cost Accounting, Jack McCaffery
- Financial Management and Investment, Russell Diehl
- Poultry Raising and Processing, Dr. Jeffrey Firman (Two assignments)
- Food Safety and HACCP, Dr. Gleynd Bledsoe (Two assignments)

When applicable, the program will continue to bring consultants back on an as-needed basis to achieve continuity and build upon positive results and achievements.

Account Managers are serving a portfolio of 42 agribusiness clients throughout Azerbaijan, drawing on the short-term consulting resources described above as well as their own skills to deliver technical and managerial services. These services are tailored to the needs of each client by first completing a detailed SWOT analysis, followed by a strategic action plan and more detailed project work plans.

In addition to direct provision of services by the AAC and its visiting consultants, the AAC has entered into two grant agreements to achieve the client outreach and BDS portions of the work plan.

GABA, a Ganja-based association, has been providing agribusiness services to small producers, processors, and other entrepreneurs in the remoter areas of north-west Azerbaijan under a one-year grant agreement. At the end of April, this contract will be concluded. Based on the successful completion of the first contract, the project anticipates entering into a second grant agreement. In this second phase, the exact nature of GABA's activities will be modified to build on successes and lessons learned in the first year, and to increase attention on more specific activities that build the horticulture and meat value chains, and impact priority AAC activities.

The AAC also gave a grant to G&R Consulting, a business service provider whose aim is to provide consulting services to small, privately-owned agribusinesses in Azerbaijan. The AAC's MBAEC volunteer has been working with G&R to build technical and institutional capacity. The company recently completed a marketing study of the sausage market in Azerbaijan. While this was the company's first real market research project, the results showed that G&R needs extensive development in its research design, data analysis, and presentation skills. The AAC has recruited a consultant to work with G&R on these and other training and consulting issues.

Azerbaijan Agribusiness Marketing Council

The Azerbaijan Agribusiness Marketing Council (AAMC) has formalized its structure by adopting the proposed bylaws and defining a fee structure for membership. The Council has hired an Executive Director, selected a President, and is currently seeking office space. The Council's stated priority is now to generate membership, and the Board has planned a membership drive to culminate with a presentation and recruitment event in June. The Board has also begun to focus on the programmatic aspects of its activities and the possibility for value-added services to members. Some of the services and activities being considered include: regional agricultural fairs, and international agribusiness conference, a study tour for members to Ukraine and Moldova, and a quarterly "farm journal" publication.

AAC Marketing Programs

In Year One, the AAC team designed a BUY AZERI Marketing Campaign (*Buy Local Products – Support Your Country*) to stimulate awareness of domestic products. The campaign focuses on promoting the local food industry through images that invoke a feeling of local pride and slogans that further foster this feeling such as *Help Your Country Grow*, thus engendering a sense of loyalty towards, and affinity with, domestic producers. The two poster designs of the first year were added to with new design, featuring the same slogan, which was launched in February.

The AAC continues to promote its activities and highlight timely topics of interest to agribusinesses through a newsletter, although the publication has become quarterly. In addition, the AAC modifies its website, www.aac.az, on a regular basis.

Value Chain Development

General value chain development has continued by addressing specific linkages needing attention. In particular, much attention has been given to HACCP, sanitation, and general food safety issues through workshops, technical assistance, and partnership with local HACCP consulting companies.

The AAC completed its preliminary research into the meat value chain, the product group selected for the first specific value-chain project. As a result of this research, the AAC determined that future meat chain efforts would focus on poultry and sausage. For sausage, M&T has been selected to receive a grant to pursue HACCP certification, and success will lead to the expansion of this model to other companies. For poultry, Dr. Jeffre Firman was invited to return for a second consulting assignment, focusing on poultry raising and processing, and addressing key issues like feed costs and slaughter weights.

In addition to these activities, a second product chain, the horticulture chain, has been selected for analysis. SIAR Consulting Company conducted preliminary market research that provides a good general overview of the domestic production and consumption situation for both fresh and processed fruits and vegetables. However, this is just the first step, and a complete value chain analysis is still underway.

Market Analysis and Trade Development

Market analysis is one of the key activities of the AAC. It is by understanding the consumer, the competition, and the marketplace that agribusinesses can become truly competitive, leveraging their competitive advantages rather than relying on traditional sources of comparative advantage. The AAC works both directly to research markets and through local partners and grantees. The following are the key market studies undertaken in the past six months:

- Research on the domestic honey market and consumer preferences for Shahdag E. by account managers
- Research on the domestic sausage market and consumer preferences for M&T Company by G&R Consulting
- Research on the domestic market and processing facilities for fresh and processed fruit and vegetables – for the horticulture value chain analysis by SIAR Consulting

Trade Fairs

While trade fairs have benefits beyond trade and marketing (such as technology know-how, access to inputs and equipment, competitive analysis, etc.), they are included in this section for ease of reference. Clients exhibited at only one trade show during the past six months. The rest of the trade fairs were chosen to expose clients to new technologies, markets, products, and ideas. A summary of the trade fairs for the past six months, participants, and results follows:

Dates	Show	Location	Participants	Highlights
Oct. 7-10	Polagra-Farm	Poznan, Poland	4 clients (greenhouse, dairy processor, feed company)	-Three companies found possible equipment suppliers -One made an export arrangement -Several equipment suppliers interested in the Azeri market
Oct. 17-21	SIAL	Paris, France	4 clients (greenhouse, sausage, hazelnut, catering)	-The catering company began importing equipment for a new café facility -All four companies made potential supply and export contacts
Nov. 2-5	World Food Ukraine	Kiev, Ukraine	7 clients (3 juice, 2 vegetable processors, 1 winery, 1 cheese maker)	-One company ordered jars from a new supplier for a cost savings of \$44,000 -Two companies signed export contracts for juice -One company opened a representative office and leased warehouse space

Dec. 12-16	IATF	Dubai, UAE	6 clients (3 dairy, 1 juice, 1 hazelnut, and 1 leather goods)	-First exposure to a new market: wholesale and retail point of sale research -Business contacts established with both suppliers and potential buyers
Feb. 20-23	Gulf Food	Dubai, UAE	Staff Only – Research	-Good understanding of Dubai food imports, statistics, and pricing -Development of distribution, hotel, and retail contacts -Promotion of Azerbaijan to potential buyers
Mar. 31-Apr. 3	FOTEG	Istanbul, Turkey	Staff Only - Research	-Examined Turkish retail markets as a possible model for Azerbaijan's development -Established business linkages with packaging and sausage casing companies, dairy cultures supplier, hygiene & sanitation and lab equipment companies, and cooling and freezing room manufacturer

In addition, the AAC will continue to support trade fair participation throughout Year Two and beyond. The following is a list of trade fairs that AAC staff or clients will attend through the end of 2005:

- April 11-14, Interfood, St. Petersburg, Russia, Food Processing and Packaging (Exhibit)
- September 20-23, Worldfood, Moscow, Russia, Food Processing and Packaging (Exhibit)
- November 1-4, Worldfood, Kiev, Ukraine, Food Processing and Packaging (Exhibit)
- October 8-12, ANUGA, Cologne, Germany, Food Processing (Attend, Staff Only)
- November, Balkan Food and Drinks, Sofia, Bulgaria, Food Products (Attend, Staff Only)

Institutional and Food Service Client Companies

In Year Two, the AAC has continued to work to improve local linkages to institutional food buyers. In addition to researching the market and compiling a list of all institutional, catering, and food service companies, the AAC has helped clients to market to these companies. As a result, Catemar Catering Company has now contracted locally for honey, sausage, and juice. The honey contract was particularly beneficial to one local company, more than doubling monthly revenue.

Investment and Access to Finance

AAC staff released the first edition of the *Guide to Investing in the Agribusiness Sector of Azerbaijan* at the beginning of Year Two, which will serve as a resource for potential investors and others interested in doing business in Azerbaijan.

As a result of AAC assistance, two poultry companies, one a subsidiary of an investment holding, have made significant investments into plant infrastructure and equipment improvements. The AAC helped these companies to locate potential suppliers, assess technical requirements, compare and evaluate bids, and negotiate with suppliers.

In March 2005, the first international investor, Food Pro International, visited Azerbaijan to assess the general business environment and meet with leading agribusinesses. Through contacts like this one, the AAC is opening avenues to investment.